

CITY OF FREDERICKSBURG
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
& SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

June 30, 2007

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City of Fredericksburg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Woodring	Mayor	Jan 2008
Alan Beier	Mayor Pro tem	Jan 2008
Darrel Holmes	Council Member	Jan 2008
Brent Johns	Council Member	Jan 2010
Chad Brandenburg	Council Member	Jan 2010
Ralph Schultz	Council Member	Jan 2010
Cindy Lantow	Administrator	Jan 2009
John Tremaine	Attorney	Jan 2008

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fredericksburg, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Fredericksburg's management. My responsibility is to express opinions on these financial statements based on my audit.

Except as discussed in the following paragraph:

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

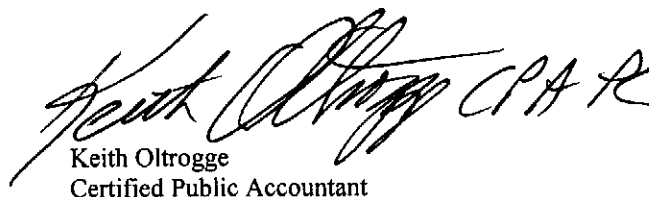
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2006.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2006, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Fredericksburg as of and for the year ended June 30, 2007 on the basis of accounting described in Note 1. Also, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fredericksburg as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated December 20, 2007 on my consideration of the City of Fredericksburg's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 20 through 21 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fredericksburg City's basic financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Keith Oltrogge
Certified Public Accountant

February 13, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Fredericksburg provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2007 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 64% or approximately \$700,000 from fiscal 2006 to fiscal 2007. Property tax decreased approximately 12,000 from fiscal 2006 to fiscal 2007. During fiscal 2006 the City received \$541,707 from the Iowa Department of Transportations.
- Disbursements of the City's governmental activities decreased 63%, or approximately \$854,000, in fiscal 2007 from fiscal 2006. Disbursements decreased in all of the functional categories with the largest decrease in public works – approximately \$609,000.
- The City's total cash basis net assets increased 5%, or \$80,000 from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$31,000 and the assets of the business type activities increased approximately \$50,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sewer improvement revenue note sinking, the electric utility, the meter deposits and the solid waste collection. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the electric, water, sewer, and waste collection funds. The electric and sewer are the major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$276,000 to \$307,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
Year ended June 30, 2007	
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 28,281
Operating grants, contributions and restricted interest	2,334
Capital grants, contributions and restricted interest	-
General receipts:	
Property tax	166,283
Local option sales tax	76,730
Grants and contributions not restricted to specific purposes	38,354
Unrestricted investment on investments	2,790
Other general receipts	83,160
Total receipts	<u>\$ 397,932</u>
Disbursements:	
Public safety	\$ 118,327
Public works	118,24
Health and social services	943
Culture and recreation	166,736
Community and economic development	19,524
General government	72,968
Debt service	-
Capital projects	-
Total disbursements	<u>\$ 496,702</u>
Change in cash basis net assets before transfers	\$ -98,770
Transfers, net	<u>130,000</u>
Change cash basis net assets	\$ 31,230
Cash basis net assets beginning of year	<u>276,059</u>
Cash basis net assets end of year	<u>\$ 307,289</u>

The City's total receipts for governmental activities decreased 64%, or approximately \$700,000. The total cost of all programs and services decreased approximately \$215,000, or 30% with no new programs added this year. The significant decrease in receipts was primarily the result of Grant Funding received from the Iowa Department of Transportation during fiscal 2006.

The cost of all governmental activities this year was \$496,702 compared to \$1,350,583 last year. However, as shown in the Statement of Activities and Net Assets on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$466,087 because some of the cost was paid by those directly benefited from the programs \$28,281 or by other governments and organizations that subsidized certain programs \$28,281 or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest \$2,334. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2007 from 2006 \$541,787 due to receiving grant proceeds to street and road construction. The City' paid for the remaining "public benefit" portion of governmental activities with approximately \$367,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest and general entitlements.

The following table presents the total and net cost of the City's governmental activities:

Figure A-5 Total and Net Cost of Governmental Activities				
	Total Cost of Services		Net Cost of Services	
	2007		2007	
Functions/Programs:				
Governmental activities:				
Public safety	\$	118,327	\$	118,327
Public works		118,204		118,204
Health and social services		943		943
Culture and recreation		166,736		136,121
Community and economic development		19,524		19,524
General government		72,968		72,968
Total governmental activities	\$	496,702	\$	466,087

Total business type activities receipts for the year were \$1.762 million compared to \$1.445 million last year. This increase was due primarily to the increase in fees charged for services. The cash balance increased by approximately \$756,000 from the prior year because most of the bond proceeds received will not be spent until next fiscal year for the approved sewer construction project. The total disbursements for the fiscal year increased by 9.3% to a total of \$1.686 million.

Changes in Cash Basis Net Assets of Business Type Activities
Year ended June 30, 2007

Receipts:	
Program receipts:	
Charges for service:	
Electric	\$ 1,269,048
Water	104,434
Sewer	234,279
Waste collection	95,060
General receipts:	
Unrestricted interest on investments	59,529
Total receipts	<u>\$ 1,762,350</u>
Disbursements:	
Electric	\$ 1,186,502
Water	107,085
Sewer	184,085
Waste collection	105,338
Total disbursements	<u>\$ 1,583,010</u>
Change in cash basis net assets before transfers	\$ 179,340
Transfers, net	<u>-130,000</u>
Increase in cash balance	\$ 49,340
Cash basis net assets beginning of year	<u>1,167,853</u>
Cash basis net assets end of year	<u>\$ 1,217,193</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Fredericksburg City completed the year, its governmental funds reported a combined fund balance of \$307,289, an increase of more than \$31,000 above last year's total of \$276,059. The following are major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$33,986 from the prior year to \$81,943. This increase was due to money transferred in from electric funds.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$16,047 to \$142,395 during the fiscal year. This decrease was attributable to additional repairs.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Electric Fund cash balance decreased \$15,136 to \$576,985, due primarily to money transferred into the general fund.
- The Sewer Fund cash balance increased to \$58,649 to \$197,978, due primarily to an increase in rates.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 29, 2007 and resulted in an increase in operating disbursements related to additional fire department equipment repairs and economic development costs. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$438,331 more than budgeted. This was primarily due to the City receiving more in utility charges for service than anticipated.

Even with the budget amendments, total disbursements were \$156,908 more than the amended budget.

The City exceeded the amounts budgeted in the Public works and business type activities functions for the year ended June 30, 2007 due to higher costs for maintenance projects not budgeted.

DEBT ADMINISTRATION

At June 30, 2007, the City did not have any debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Fredericksburg City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Inflation in the State continues to be somewhat lower than in the nation. Inflation has been modest here due, in part, to the slowing of the residential housing market and increases in energy prices in 2007. These indicators were taken into account when adopting the budget for fiscal year 2008. Amounts available for appropriation in the operating budget are \$2.6 million, an increase of 26% over the final 2007 budget. The majority of this increase is due to increased charges for services. The City will use these increases in receipts to finance the programs we currently offer. Budgeted disbursements are expected to rise by approximately \$150,000. Increased wage and cost-of-living adjustments and increases in repairs and maintenance represent the largest increases. The City has added no major new programs or initiatives to the 2008 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$166,000 by the close of 2008.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Cindy Lantow, City Clerk, 151 W Main Street, Fredericksburg, Iowa 50630.

Basic Financial Statements

City of Fredericksburg

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, & Restricted Interest	Capital Grants, Contributions & Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 118,327	\$ -	\$ -	\$ -
Public works	118,204	-	-	-
Health and social services	943	-	-	-
Culture and recreation	166,736	28,281	2,334	-
Community and economic development	19,524	-	-	-
General government	72,968	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total governmental activities	\$ 496,702	\$ 28,281	\$ 2,334	\$ -
Business type activities:				
Electric	\$ 1,186,502	\$ 1,269,048	\$ -	\$ -
Water	107,085	104,434	-	-
Sewer	184,085	234,279	-	-
Waste collection	105,338	95,060	-	-
Total business type activities	\$ 1,583,010	\$ 1,702,821	\$ -	\$ -
Total	\$ 2,079,712	\$ 1,731,102	\$ 2,334	\$ -
General Receipts:				
Property tax levied for:				
General purposes				
Local option sales tax				
Grants and contributions not restricted to specific purposes				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts				
Change in cash basis net assets before transfers				
Transfers				
Transfer in				
Transfer out				
Change in cash basis, net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities		Business Type Activities		Total
\$	-118,327	\$	-	\$ -118,327
	-118,204		-	-118,204
	-943		-	-943
	-136,121		-	-136,121
	-19,524		-	-19,524
	-72,968		-	-72,968
	-		-	-
	-		-	-
\$	466,087	\$	-	\$ 466,087
\$	-	\$	82,546	\$ 82,546
	-		-2,651	-2,651
	-		50,194	50,194
	-		-10,278	-10,278
\$	-	\$	119,811	\$ 119,811
\$	-466,087	\$	119,811	\$ -346,276
\$	166,283	\$	-	\$ 166,283
	76,730		-	76,730
	38,354		-	38,354
	2,790		59,529	62,319
	83,160		-	83,160
\$	367,317	\$	59,529	\$ 426,846
\$	-98,770		179,340	80,570
	130,000		-	130,000
	-		-130,000	-130,000
\$	31,230	\$	49,340	\$ 80,570
	276,059		1,167,853	1,443,912
\$	307,289	\$	1,217,193	\$ 1,524,428

Cash Basis Net Assets

Restricted:

Streets

Capital projects

Debt services

Unrestricted

Total cash basis net assets

Governmental Activities		Business Type Activities	Total
\$	142,395	-	143,295
	74,355	-	74,355
	8,596	-	8,596
	81,943	1,217,193	1,299,136
\$	307,289	\$ 1,217,193	\$ 1,524,428

City of Fredericksburg

**Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds**

As of and for the year ended June 30, 2007

		Special Revenue	
	General	Road Use Tax	Capital Projects
Receipts:			
Property tax	\$ 129,672	\$ -	\$ -
Other city tax	28,444	-	27,412
Licenses and permits	540	-	-
Use of money and property	4,725	-	2,581
Intergovernmental	26,058	65,808	-
Charges for service	2,455	-	-
Miscellaneous	24,325	-	-
Total receipts	<u>\$ 216,219</u>	<u>\$ 65,808</u>	<u>\$ 29,993</u>
Disbursements:			
Operating:			
Public safety	\$ 71,936	\$ -	\$ -
Public works	51,484	65,084	16,693
Health and social services	684	-	-
Culture and recreation	96,378	-	7,195
Community and economic development	-	-	-
General government	33,810	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>\$ 254,292</u>	<u>\$ 65,084</u>	<u>\$ 23,888</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ -38,073</u>	<u>\$ 724</u>	<u>\$ 6,105</u>
Other financing sources (uses):			
Operating transfers in	\$ 40,437	\$ -	\$ -
Operating transfers out	-3,000	-	-
Total other financing sources (uses)	<u>\$ 37,437</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in cash balances	\$ -636	\$ 724	\$ 6,105
Cash balances beginning of year	110,876	89,227	80,930
Cash balances end of year	<u>\$ 110,240</u>	<u>\$ 89,951</u>	<u>\$ 87,035</u>
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	110,240	-	-
Road use tax fund	-	89,951	87,035
Capital projects fund	-	-	-
Total cash basis fund balances	<u>\$ 110,240</u>	<u>\$ 89,951</u>	<u>\$ 87,035</u>

See notes to financial statements.

Debt Service		Total
\$	-	\$ 133,158
	-	33,125
	-	5,031
	-	20,025
	-	166,304
	-	28,281
	-	288
	-	11,720
\$	-	\$ 397,932
\$	-	\$ 118,327
	-	118,204
	-	943
	-	166,736
	-	19,524
	-	72,968
	-	-
	-	-
\$	-	\$ 496,702
\$	-	\$ -98,770
\$	-	\$ 185,800
	-	-55,800
\$	-	\$ 130,000
\$	-	\$ 31,230
	8,596	276,059
\$	8,596	\$ 307,289
\$	8,596	\$ 8,596
	-	81,943
	-	142,395
	-	74,355
\$	8,596	\$ 307,289

City of Fredericksburg

**Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Governmental Funds
As of and for the year ended June 30, 2007**

Total governmental funds cash balances (page 19)	\$ 307,289
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are not different:</i>	
Cash basis net assets of governmental activities (page 17)	<u>\$ 307,289</u>
Net change in cash balances (page 19)	\$ 31,230
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are not different:</i>	
Change in cash balance of governmental activities (page 17)	<u>\$ 31,230</u>

City of Fredericksburg

**Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds**

As of and for the year ended June 30, 2007

	Enterprise Funds			
	Electric	Sewer	Non-Major	Total
Operating receipts:				
Charges for service	\$ 1,263,073	\$ 234,279	\$ 199,494	\$ 1,696,846
Operating disbursements:				
Business type activities	\$ 1,182,252	\$ 184,085	\$ 212,423	\$ 1,578,760
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 80,821	\$ 50,194	\$ -12,929	\$ 118,086
Non-operating receipts (disbursements):				
Interest on investments	\$ 34,043	\$ 8,455	\$ 17,031	\$ 59,529
Excess (deficiency) of receipts over (under) disbursements	114,864	58,649	4,102	177,615
Operating Transfers out	-130,000	-	-	-130,000
Net change in cash balances	\$ -15,136	\$ 58,649	\$ 4,102	\$ 47,615
Cash balances beginning of year	592,121	139,329	428,403	1,159,853
Cash balances end of year	\$ 576,985	\$ 197,978	\$ 432,505	\$ 1,207,468
Cash Basis Fund Balances				
Unreserved	\$ 576,985	\$ 197,978	\$ 432,505	\$ 1,207,468

See notes to financial statements.

Trust & Agency Guaranteed Deposits	
\$	5,975
\$	4,250
\$	1,725
\$	-
	1,725
\$	-
\$	1,725 8,000
\$	9,725
\$	9,725

City of Fredericksburg

**Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Proprietary Funds
As of and for the year ended June 30, 2007**

Total enterprise funds cash balances (page 22)	\$ 1,207,468
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***Amounts reported for business type activities in the Statement of Activities
and Net Assets are different because:***

The Trust and Agency Fund is used by management to segregate the costs of utility deposits. The assets of the Trust and Agency Fund are included in business type activities in the Statement of Net Assets

9,725

Cash basis net assets of business type activities (page 17)	<u>\$ 1,217,193</u>
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Net change in cash balances (page 22)	\$ 47,615
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***Amounts reported for business type activities in the Statement of Activities
and Net Assets are different because:***

The Trust and Agency Fund is used by management to segregate the costs of utility deposits. The change in net assets of the Trust and Agency Fund is reported with business type activities.

1,725

Change in cash balance of business type activities (page 17)	<u>\$ 49,340</u>
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City of Fredericksburg

Notes to Financial Statements

June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fredericksburg City is a political subdivision of the State of Iowa located in Chickasaw County. It was first incorporated in 1894 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general administrative services. The City also provides electric, water, sewer, and waste collection utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, Fredericksburg City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

The following component units are entities that are legally separate from the City, but are so intertwined with City that they are, in substance, part of the City. However, the financial transactions of these component units have not been displayed because they are not material.

The Fredericksburg Volunteer Fire Department collects donations, which are used to purchase items, which are not included in the City's budget.

The Fredericksburg Friends of the Library has been incorporated under 504A of the Code of Iowa to receive donations and contributions. Funds of the corporation are primarily to be used for a public library addition, which is not included in the City's budget.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Chickasaw County Assessor's Conference Board, City Assessor's Conference Board, Chickasaw County Emergency Management Commission and Chickasaw County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Capital Projects Fund is used to account for capital improvement projects financed by Local Option Tax income.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

A Trust and Agency Fund is utilized to account for the utility deposit.

C. Measurement Focus and Basis of Accounting

Fredericksburg City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amount budgeted in the public works and business type activities functions.

NOTE 2 – CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit Risk – The City's investment in the Iowa Public Agency Investment Trust is unrated.

NOTE 3 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2007 was \$18,770, equal to the required contribution for the year.

NOTE 4 – COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 5,423
Sick leave	22,182
Total	<u>\$ 27,605</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

NOTE 5 – INTER-FUND TRANSFERS

The detail of inter-fund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue – Capital Projects	\$ 55,800
	Enterprise Fund - Electric	130,000
Total		<u>\$ 185,800</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTE 6 – RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling \$282 during the year ended June 30, 2007.

NOTE 7 – RISK MANAGEMENT

The City of Fredericksburg is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 – SUBSEQUENT EVENTS

In August 2007, the City transferred \$225,000 into the newly created Urban Renewal Area Tax Increment Revenue Fund. The funds will be used in support of the construction of a new assisted living facility.

NOTE 9 – NOTES RECEIVABLE

In August 2006, the City loaned the Fredericksburg Community Development Corporation (FCDC) \$100,000, at 1% per annum for the development of a housing addition. Interest only is due at this time. During the year, the City received \$1,000 interest from FCDC. The electric fund is financing this activity.

REQUIRED SUPPLEMENTARY INFORMATION

City of Fredericksburg
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 186,177	\$ -
Tax increment financing collections	115,112	-
Other city tax	56,228	-
Licenses and permits	540	-
Use of money and property	12,724	15,209
Intergovernmental	91,866	-
Charges for service	2,455	565,216
Special assessments	-	-
Miscellaneous	105,760	650
Total receipts	<u>\$ 570,862</u>	<u>\$ 581,075</u>
Disbursements:		
Public safety	\$ 71,936	\$ -
Public works	133,261	-
Health and social services	684	-
Culture and recreation	103,573	-
Community and economic development	-	-
General government	33,810	-
Debt service	191,234	-
Capital projects	562,279	-
Business type activities	-	524,745
Total disbursements	<u>\$ 1,096,777</u>	<u>\$ 524,745</u>
Excess (deficiency) of receipts over (under) disbursements	\$ -525,915	\$ 56,330
Other financing sources, (uses) net	<u>37,273</u>	<u>-37,273</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ -488,642	\$ 19,057
Balances beginning of year	<u>948,837</u>	<u>511,766</u>
Balances end of year	<u>\$ 460,195</u>	<u>\$ 530,823</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 186,177	\$ 184,595	\$ 184,595	\$ 1,582
115,112	115,670	115,670	-558
56,228	53,525	53,525	2,703
540	150	150	390
27,933	26,000	26,000	1,933
91,866	90,593	90,593	1,273
567,671	549,600	549,600	18,071
-	-	-	-
106,410	25,000	25,000	81,410
<u>\$ 1,151,937</u>	<u>\$ 1,045,133</u>	<u>\$ 1,045,133</u>	<u>\$ 106,804</u>
\$ 71,936	\$ 89,260	\$ 94,760	\$ 22,824
133,261	103,770	148,464	15,203
684	684	684	-
103,573	70,175	78,370	-25,203
-	-	-	-
33,810	39,500	39,500	5,690
191,234	131,716	191,236	2
562,279	600,000	600,000	37,721
524,745	529,856	565,856	41,111
<u>\$ 1,621,522</u>	<u>\$ 1,564,961</u>	<u>\$ 1,718,870</u>	<u>\$ 97,348</u>
\$ -469,585	\$ -519,828	\$ -673,737	\$ 204,152
-	600,000	600,000	-600,000
\$ -469,585	\$ 80,172	\$ -73,737	\$ -395,848
1,460,603	957,137	957,137	503,466
<u>\$ 991,018</u>	<u>\$ 1,037,309</u>	<u>\$ 883,400</u>	<u>\$ 107,618</u>

City of Fredericksburg

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$55,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amount budgeted in the public works and business type activities functions.

Other Supplementary Information

City of Fredericksburg
Schedule of Indebtedness
Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Capital Loan Notes:			
Sewer Improvement	November 4, 1996	4.6-5.35%	\$120,000
Sewer Improvement	April 1, 2002	3.4-4.5%	\$400,000
Urban Renewal Tax Increment Financing (TIF):			
Revenue Bond	October 1, 1999	4.7-5.3%	\$385,000
Revenue Bond	June 15, 2006	2.85-3.7%	\$575,000
Revenue Notes:			
Sewer	April 1, 2002	3.0-4.9%	\$325,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$35,000	\$-	\$35,000	\$-	\$1,872	\$-
380,000	-	25,000	355,000	16,198	-
<u>\$415,000</u>	<u>\$-</u>	<u>\$60,000</u>	<u>\$355,000</u>	<u>\$18,070</u>	<u>\$-</u>
\$245,000	\$-	\$40,000	\$205,000	\$12,645	\$-
575,000	-	40,000	535,000	18,919	-
<u>\$820,000</u>	<u>\$-</u>	<u>\$80,000</u>	<u>\$740,000</u>	<u>\$31,564</u>	<u>\$-</u>
\$280,000	\$-	\$20,000	\$260,000	\$11,965	\$-

City of Fredericksburg

Schedule of Receipts By Source and Disbursements By Function –
All Governmental Funds

For the Last Two Years

	2007	2006 (Unaudited)
Receipts:		
Property tax	\$ 186,177	\$ 193,018
Tax increment financing collection	115,112	94,915
Other city tax	56,228	69,494
Licenses and permits	540	150
Use of money and property	12,724	6,106
Intergovernmental	91,866	99,163
Charges for service	2,455	389
Special assessments	-	-
Miscellaneous	105,760	62,474
Total	<u>\$ 570,862</u>	<u>\$ 525,709</u>
Disbursements:		
Operating:		
Public safety	\$ 71,936	\$ 91,563
Public works	133,261	87,434
Health and social services	684	684
Culture and recreation	103,573	63,654
Community and economic development	-	-
General government	33,810	32,781
Debt service	191,234	138,048
Capital projects	562,279	133,795
Total	<u>\$ 1,096,777</u>	<u>\$ 547,959</u>

**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fredericksburg, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated December 20, 2007. My report expressed an unqualified opinion on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Fredericksburg's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Fredericksburg's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe items I-A-06, I-B-06 and I-C-06 are material weaknesses.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fredericksburg's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fredericksburg and other parties to whom the City of Fredericksburg may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Fredericksburg during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Keith Oltrogge
Certified Public Accountant

February 13, 2008

City of Fredericksburg

Schedule of Findings

Year ended June 30, 2007

Part I – Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- I-B-06 Library Disbursement Approval – The Library Board approved most disbursements after the actual disbursement was made. The Board does not have a written policy regarding payment prior to approval for certain types of ongoing expenditures. Dual signatures required on checks were not always present on all library fund disbursements.

Recommendation – The procedures described in the above comment weaken the control that the Board has over disbursements since not all of the supporting documentation was available for the Board to examine and support their authorization for payment. Dual signatures should be obtained on all checks for the library account.

Response – We will review and implement these recommendations.

Conclusion – Response accepted.

- I-C-06 Library Accountability – Not all Library receipts and disbursements are accounted for by the City. The Library has its own Board of Directors and controls its bank accounts and financial statements.

Recommendation – The Library should make sure its financial information is made available to the City Clerk so it can be included in City reports.

Response – We will review and implement these recommendations.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Fredericksburg

Schedule of Findings

Year ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amount budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

II-B-06 Questionable Disbursements – I noted no disbursements that would not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-06 Business Transactions – There were no business transactions between the City and City officials or employees.

II-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-06 Council Minutes – No transactions were found that I believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 372 of the Code of Iowa and should publish minutes as required.

Response – We will comply with the Code requirements and will publish minutes and receipts as required..

Conclusion – Response accepted.

II-G-06 Financial Condition – The Enterprise Funds – Water and Sewer had deficit balances of \$2,840 and \$6,805, respectively, at June 30, 2007. The Special Revenue Fund – Urban Renewal Tax Increment Financing (TIF) also had a deficit balance of \$9,680 at June 30, 2007.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to sound financial positions.

Response – We are working on this.

Conclusion – Response accepted.